# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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## FISCAL IMPACT STATEMENT

**LS 6355** | **DATE PREPARED:** Nov 20, 2000
**BILL NUMBER:** SB 403 | **BILL AMENDED:**

**SUBJECT:** High Technology Investment Tax Credit.

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**FUNDS AFFECTED:** X **GENERAL**
X **DEDICATED**
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill allows a credit against state tax liability for qualified investments in small Indiana-based high technology businesses. It provides that the credit equals 10% of the amount of qualified investment made in the taxpayer's taxable year. It also provides that the credit applies only to qualified investments made in 2002, 2003, and 2004.

**Effective Date:** January 1, 2002.

**Explanation of State Expenditures:** This bill would provide a tax credit for taxpayers investing in certain high technology businesses in Indiana. The Department of State Revenue would have to develop forms for the reporting of this credit but would be able to absorb any related expenses of processing, printing, and computer programming within its current budget.

**Explanation of State Revenues:** Under this proposal, a taxpayer making an investment in certain Indiana-based high technology businesses would be entitled to a credit equal to 10% of the investment. (*Example:* A $1 M investment would yield a $100,000 tax credit.) These businesses must conduct high technology research and have fewer than 225 employees, at least 75% of whom must work in Indiana. The credit may be taken against Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Financial Institutions Tax, and Insurance Premium Tax liability. Revenue from these taxes is deposited in the state General Fund and the Property Tax Replacement Fund (PTRF). There is no limit on the total amount of tax credits allowed under this bill.

This credit may reduce state tax revenues by an indeterminable amount beginning in FY 2003. As businesses may receive credits under this bill for the taxable years 2002 through 2004, the state revenue impact will occur mostly in FY 2003, FY 2004, and FY 2005. If the amount of credit exceeds a taxpayer's liability, the excess may be carried forward. A taxpayer is not entitled to a carryback or a refund of any unused credit. If a pass through entity without state tax liability is entitled to a credit, a shareholder, partner, or a member of the entity is entitled to a credit equal to the credit determined for the pass through entity multiplied by that person's share of the entity's distributive income.

*Relevant Data:* Based on U.S. Census data and employing the Bureau of Labor Statistics' definition of high technology, there were 2,026 high-tech establishments in Indiana with 60,544 workers in 1997. However, some of these 2,026 firms employ more than 225 workers and would not qualify as small Indiana-based high technology businesses.

*Secondary impact:* This bill creates a new incentive for investment in small high-tech companies. If the additional investment generated is successful in creating new jobs and stimulating economic development, there could be future increases in corporate and personal income tax collections. Greater personal income may also result in increased revenue from other sources, such as the Sales Tax and the Motor Vehicle Excise Tax. It is not known if the positive secondary impacts associated with this proposal would be enough to offset the reduction in state tax revenues.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Secondary impact:* If the additional investment encouraged through this credit is sufficient to create employment and promote economic growth, there could be positive secondary fiscal impacts for local units.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Indiana Economic Development Council, U.S. Census.